

**Procedures Established to Ensure
Compliance With the Rural Development Act
of 1972 Were Not Consistently Followed**

August 2003

Reference Number: 2003-10-177

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 20, 2003

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Assistant Inspector General for Audit (Small Business and
Corporate Programs)

SUBJECT: Final Audit Report - Procedures Established to Ensure
Compliance With the Rural Development Act of 1972 Were Not
Consistently Followed (Audit # 200310028)

This report presents the results of our audit to determine whether the Internal Revenue Service (IRS) established adequate policies to comply with the Rural Development Act of 1972 (RDA) (as amended)¹ requirements for locating new offices and other facilities in rural areas. This audit was conducted in compliance with the requirements of the Consolidated Appropriations Resolution, 2003.²

In summary, the IRS has established procedures to promote compliance with the requirements of the RDA. The procedures were detailed in a Memorandum on Location Policy.³ However, while the procedures were provided to the IRS staff and are on the IRS' internal web site, the requirement to document the proper consideration of RDA requirements in a checklist was not consistently followed when space was acquired. We reviewed the project case files for a sample of 11 of the 31 moves to new locations that occurred between March 2002 and June 2003. Of the 11 office relocations we reviewed, 6 were within urban areas. Of those six, only one project case file contained documentation that the RDA had been considered. Notwithstanding, the moves within urban areas fit the description for exemption. In our opinion, it did not appear that the mission and purposes of those offices could be efficiently performed in a rural area.

The other five relocations that we reviewed were for moves to areas that qualified as rural according to the definition stated in the Location Policy. Nonetheless, the project

¹ 7 U.S.C. Section 2204b-1(2000).

² Consolidated Appropriations Resolution, 2003, Pub. L. No. 108-7, 117 Stat. 472, Section 638.

³ Memorandum from the Director, Real Estate and Facilities Management (dated June 17, 2002).

files for three of these moves contained documentation as to why a move to a rural area would not be feasible, indicating that IRS employees were not clear on the definition of rural in the IRS' own policy.

The IRS issued a memorandum on May 14, 2003, which requires the Associate Directors to review space requirement packages to ensure that they contain all required documentation including the worksheet documenting the proper consideration of RDA requirements. If the Area Directors follow this policy, the IRS should improve its adherence to the documentation and approval requirements.

During our review, we noted that the definition of a rural area that the IRS used in the Location Policy is not the most current. In the Federal Management Regulation Bulletin effective January 21, 2003, the General Services Administration (GSA) formally published its definition of a rural area. The Department of the Treasury has adopted the GSA definition in its Interim Procedures for Treasury Directive 72-03 – Relocation of Facilities (dated June 2003).

We recommended that the Chief, Agency-Wide Shared Services (AWSS), revise its definition to match the one suggested by the GSA and the Department of the Treasury to ensure consistency with other Federal agencies and Treasury bureaus.

Management's Response: AWSS management agreed with our recommendation and revised the IRS Location Policy. The definition of a rural area is now consistent with the GSA and Treasury definitions. AWSS will post the change to the Policy and Guidance Section of their web site. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers who are affected by the report's recommendation. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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Procedures Established to Ensure Compliance With the Rural Development Act of 1972 Were Not Consistently Followed

Background

The Rural Development Act of 1972 (RDA) (as amended)¹ requires all Federal agencies to establish and maintain policies and procedures giving first priority to locating new offices and other facilities in rural areas. The intent of this provision is to help revitalize and develop rural areas by ensuring they receive adequate consideration when locating Federal offices and facilities.

The Consolidated Appropriations Resolution, 2003² requires that Inspectors General determine the policies and procedures in place for each department or agency to give first priority to locating new offices and other facilities in rural areas as directed by the RDA. The results of this review are to be reported to the Senate Committee on Appropriations by August 19, 2003.

The Department of the Treasury issued a directive, Location of New Offices and Facilities in Rural Areas (TD 72-03), in 1980 (updated in 1989) to meet the requirements of the RDA. TD 72-03 states that the policy of the Department of the Treasury (and all bureaus) is to give first priority to locating new Treasury facilities in rural areas unless there are substantial reasons for not doing so.

TD 72-03 also requires the bureaus to obtain written approval to deviate from the requirements of the directive. Treasury approval is required for a major facility acquisition, a significant organizational change involving geographic or regional adjustments, or a program activity that involves, in its entirety, 50 or more employees. In all other instances, the appropriate bureau official may approve relocation to other than a rural area. The Real Estate and Facilities Management Division (REFM) of Agency-Wide Shared Services (AWSS) is responsible for real estate acquisition and management for the Internal Revenue Service (IRS).

Last year, the Treasury Inspector General for Tax Administration (TIGTA) performed a review to determine

¹ 7 U.S.C. Section 2204b-1 (2000).

² Consolidated Appropriations Resolution, 2003, Pub. L. No. 108-7, 117 Stat. 472, Section 638.

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the IRS' compliance with the RDA. The report on the results of that review³ contained a recommendation that policies and procedures be established to ensure consistent consideration is given to locating new offices and other facilities in rural areas. The IRS agreed to establish such a policy by June 14, 2002.

This audit was performed in the IRS National Headquarters in Washington, D.C., in the Office of REFM from June through July 2003. The audit was conducted in accordance *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Procedures Were Established but Not Consistently Followed

The IRS implemented the corrective action it proposed in response to our prior report. To promote compliance, the IRS established policy and procedures and documented them in a Memorandum on Location Policy.⁴ The policy is published on the AWSS web site and provides guidelines to ensure the RDA is addressed. Documentation of compliance is to be included in the project case files. Included with the Location Policy is an electronic worksheet, which is a checklist developed to help evaluate new locations for RDA compliance and requires narrative support for decisions to locate in other than rural areas. The worksheet is also published on the AWSS web site.

However, the policy and procedures meant to ensure compliance with the RDA were not always followed. According to the IRS' Location Policy, if a proposed area of consideration is not in a rural area, then it must be evaluated

³ *Management Advisory Report: The Internal Revenue Service Needs to Implement Policies and Procedures to Ensure Compliance With the Rural Development Act of 1972* (Reference Number 2002-10-094, dated May 2002).

⁴ Memorandum from the Director, Real Estate and Facilities Management (dated June 17, 2002).

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for adherence to the RDA.⁵ Project case files are to be documented to demonstrate compliance with the policy.

We reviewed the project case files for a judgmental sample of 11 of the 31 moves to new locations that occurred between March 2002 and June 2003 to evaluate compliance with the IRS' new RDA procedures. Of the 11 office relocations that we reviewed, 6 were within urban areas. Of those six, only one project case file contained documentation that the RDA had been considered. In addition, 4 of the 6 moves involved more than 50 employees. As such, these four required Department of the Treasury approval for exemption;⁶ however, the IRS did not submit written requests to the Treasury for exemption.

The other five relocations that we reviewed were for moves to areas that qualified as rural according to the definition stated in the Location Policy. Nonetheless, the project files for three of these moves contained documentation as to why a move to a rural area would not be feasible, indicating that REFM Division employees were not clear on the definition of rural in the IRS' own policy.

Despite not having documentation in the project case files, we did not identify any new office that was located improperly in an urban rather than a rural area. The relocations within urban areas fit the description for exemption. In our opinion, it did not appear that the mission and purposes of those offices could be efficiently performed in a rural area.

The IRS recently reinforced the requirement to document compliance with the RDA in a memorandum dated May 14, 2003. The memorandum was issued to Associate Directors and Facilities Management Officers and states that Location Policy issues are to be addressed, as part of standard operating procedures, for the preparation, processing, review, and approval of requests for space. In

⁵ For the purposes of the Location Policy, a rural area is defined as an area which is outside the outer boundary of any city and its metropolitan area with a population equal to or greater than 50,000.

⁶ Approval is required from the Treasury Deputy Assistant Secretary for Departmental Finance and Management.

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The Definition of a Rural Area in the Location Policy Should Be Revised

addition, the IRS has developed procedures, working with the Department of the Treasury, to streamline the review and approval process for requests to locate facilities in other than rural areas. If the Associate Directors follow the new policy and procedures, the IRS should improve its adherence to the documentation and approval requirements.

During our review, we noted that the definition of a rural area that is used in the IRS' Location Policy is not the most current. In the Federal Management Regulation Bulletin, effective January 21, 2003, the General Services Administration (GSA) recommends that Federal agencies use the following definition: "Rural area means a city, town, or unincorporated area that has a population of 50,000 inhabitants or less, other than an urbanized area immediately adjacent to a city, town, or unincorporated area that has a population in excess of 50,000 inhabitants, as specified in 7 U.S.C. 2009."

The definition that the IRS uses in its Location Policy is the same one that was used in Treasury Directive 72-03: "An area which is outside the outer boundary of any city and its metropolitan area with a population of 50,000 or more." However, the new Interim Procedures for Treasury Directive 72-03 – Relocation of Facilities (dated June 2003), have adopted the definition recommended by the GSA. To avoid misclassification, the IRS' definition of a rural area should be consistent with that used by other Federal departments and agencies.

Recommendation

1. The Chief, AWSS, should ensure the classification of a rural area is consistent with the definition recommended by the GSA and is in adherence with the Interim Procedures for Treasury Directive 72-03 definition. In addition, the Location Policy should be revised to reflect the GSA's definition.

Management's Response: The Director, REFM Division, AWSS, revised the rural area definition to be consistent with the definition recommended by the GSA and Treasury

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Directive 72-03 interim procedures and will post this
revision on the REFM Division web site.

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Appendix I

Detailed Objective, Scope, and Methodology

Our objective was to determine whether the Internal Revenue Service (IRS) has implemented corrective actions as proposed in response to our prior audit¹ and established adequate policies to comply with the Rural Development Act of 1972 (RDA) (as amended)² requirements for locating new offices and other facilities in rural areas. This audit was conducted in compliance with the requirements of the Consolidated Appropriations Resolution, 2003.³ To accomplish our objective, we:

- I. Contacted the Office of the Director, Real Estate and Facilities Management (REFM) Division, to determine:
 - A. If the IRS had submitted its procedures and policies to the Department of the Treasury for review.
 - B. If the IRS had submitted requests for exceptions from RDA requirements.
 - C. If the Department of the Treasury had conducted any reviews of the IRS with regard to compliance with the Treasury Directive, Location of New Offices and Facilities in Rural Areas (TD 72-03).
- II. Contacted the Office of the Director, REFM Division, and the area Facilities Management Officers to determine:
 - A. If the IRS complied with the RDA and TD 72-03 when establishing the new offices. We reviewed the project case files for a sample of 11 of the 31 moves to new locations that occurred between March 2002 and June 2003 to evaluate compliance with the IRS' new RDA procedures. The cases were judgmentally selected to ensure representation from each of the five REFM Division geographic areas as well as a range of building sizes.
 - B. For any newly established offices that appeared not to have complied, whether the IRS had approved authority to deviate from the RDA.

¹ *Management Advisory Report: The Internal Revenue Service Needs to Implement Policies and Procedures to Ensure Compliance With the Rural Development Act of 1972* (Reference Number 2002-10-094, dated May 2002).

² 7 U.S.C. Section 2204b-1(2000).

³ Consolidated Appropriations Resolution, 2003, Pub. L. No. 108-7, 117 Stat. 472, Section 638.

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Appendix II

Major Contributors to This Report

Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

Michael E. McKenney, Director

Kevin P. Riley, Audit Manager

Susan A. Price, Senior Auditor

Janice M. Pryor, Senior Auditor

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Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner for Operations Support N:OS
Chief Counsel CC
Director, Real Estate and Facilities Management Division A:RE
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:AR:M
National Taxpayer Advocate TA
Audit Liaison: Agency-Wide Shared Services A

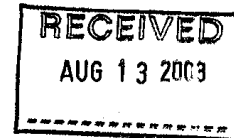
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Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224



AUG 12 2003

MEMORANDUM FOR DANIEL R. DEVLIN
ASSISTANT INSPECTOR GENERAL FOR AUDIT
(HEADQUARTERS OPERATIONS AND EXEMPT
ORGANIZATIONS PROGRAMS)

FROM:

for Ronald R. Stephen *Jan P. Helme*
Director, Real Estate and Facilities Management

SUBJECT:

TIGTA Discussion Draft (Audit #2003-10-028):
Procedures Established to Ensure Compliance with the
Rural Development Act of 1972 were Not Consistently
Followed, dated August 5, 2003

I have reviewed your report and agree with its recommendation. We have revised the IRS Location Policy defining a rural area that is consistent with the GSA and Treasury definitions. Our rationale for closing this recommendation is attached. This change will be posted on our website in the Policy and Guidance Section.

If you have any questions, please call me at (202) 283-9400. For matters concerning audit follow-up, please call Greg Rehak at (202) 622-3702.

Attachment

Procedures Established to Ensure Compliance With the Rural Development Act of 1972 Were Not Consistently Followed

Attachment

Procedures Established to Ensure Compliance With the Rural Development Act of 1972 Were not Consistently Followed, dated August 5, 2003 Discussion Draft Audit #200310028

Recommendation 1: The Chief, AWSS, should ensure the classification of a rural area is consistent with the definition recommended by GSA and is in adherence with the Interim Procedures for Treasury Directive 72-03 definition. We recommend the Location Policy be revised to reflect GSA's definition.

Corrective Action: Align the definition of a rural area to conform with GSA and Treasury guidelines.

Completed: August 7, 2003

Rationale for Closing: The Real Estate and Facilities Management Division revised the rural area definition to be consistent with the definition recommended by GSA and Treasury Directive 72-03 interim procedures. REFM has made this change in the IRS Location Policy document and will immediately post this revision on the REFM website, Policy and Guidance section.